

Emily Wimberger
Chief Economist
California Air Resources Board
1001 I Street
Sacramento, CA 95814

July 25, 2018

Dear Ms. Wimberger:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary (Form DF-131) for proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulations, as required in California Code of Regulations, title 1, section 2002(a)(1) for major regulations. Proposed text of regulatory amendments were not submitted, therefore comments are based solely upon the SRIA and other publicly available information.

The proposed regulations would modify the existing cap and trade program by increasing the emissions allowance allocations for trade-exposed sectors, decrease the amount of offsets that can be used to meet emissions obligations, and implement new price ceilings for allowances. The cap and trade program is the safety valve for the overarching strategy to reduce California emissions from around 430 million metric tons of carbon dioxide equivalent (MMTCO₂e) in 2017 to 260 MMTCO₂e by 2030, and is complemented by other regulatory measures as discussed in ARB's Scoping Plan. The actual effects of the proposed regulations depend on how demand for allowances evolves given technological improvements, effectiveness of other regulations, and economic growth. However, giving more priority to the trade-exposed sectors may require more adjustments by other sectors to comply with the cap, raising the price of allowances. Reducing the amount of offsets available and tightening qualifying criteria would also limit options and raise the price of allowances. The SRIA models the impact of allowing prices to rise to \$158 per allowance in 2030, up from the current ceiling of around \$85 in 2030 in constant price terms, and around ten times as high as current prices of about \$15. If prices were to rise to the ceiling, an increase in the ceiling from \$85 to \$95 would raise the cost of a ten MMTCO₂e reduction by \$100 million. With an increased price ceiling, more reduction strategies are commercially viable and cap and trade auctions raise more revenue, but consumers and businesses would pay higher prices. At the lower end, fewer investments in new technologies would be made, but consumers and businesses would have more certainty about their costs.

Finance generally concurs with the methodology used to estimate impacts of proposed regulations. The context provided regarding how the cap and trade program interacts with other emissions reduction strategies is particularly valuable. The SRIA assumes the cap and trade program extends past 2030 in accordance with the assumptions in the Scoping Plan, and Finance agreed that this is appropriate in this instance. This is an exception to the requirement that the baseline only include existing rules and regulations, and not assume future changes.

However, there are two areas that require changes: disclosure of how much emissions can be reduced at different price levels for the reduction strategies, and the specification of the price ceiling.

First, the SRIA must include how much emissions can be reduced at different price levels for the reduction strategies, as this is crucial to gauging the risk that allowance prices will rise to various levels. The impacts of the proposed regulations depend not only on the expected price, but on the probability that prices will rise to \$100 or \$120, and the ranges shown for the reduction strategies are \$20 to \$500. However, a \$10 price difference means a \$10 million cost for a one MMTCO_{2e} reduction. Disclosing the assumptions ARB uses also helps the public provide information on the likelihood and costs of the reduction strategies.

Second, the SRIA must discuss the impacts of the chosen price ceiling to disclose the tradeoffs to the public during the comment period. With the range of price ceilings shown, and the range of alternatives, ARB should have most of the data needed to prepare that discussion regarding the likelihood of prices rising to that ceiling, as well as the impacts to businesses and individuals of allowance prices at that ceiling.

These comments are intended to provide sufficient guidance outlining revisions to the impact assessment if a SRIA is required. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Irena Asmundson", with a stylized flourish at the end.

Irena Asmundson
Chief Economist

cc: Ms. Panorea Avdis, Director, Governor's Office of Business and Economic Development
Ms. Debra Cornez, Director, Office of Administrative Law
Mr. Richard Corey, Executive Officer, California Air Resources Board
Ms. Jessica Klobas, Manager, California Air Resources Board